

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

September 21, 2004



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Rockcastle County Sheriff's Settlement - 2003 Taxes as of September 21, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Rockcastle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

September 21, 2004

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

September 21, 2004

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Rockcastle County Sheriff as of September 21, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,363,633 for the districts for 2003 taxes, retaining commissions of \$97,622 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,262,432 to the districts for 2003 Taxes. Taxes of \$1,082 are due to the districts from the Sheriff and refunds of \$91 are due to the Sheriff from the taxing districts.

Report Comments:

- The County Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

On November 5, 2003, \$366,510 of the Rockcastle County Sheriff's deposits of public funds was uninsured and unsecured by bank securities or bonds.

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Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2003 Taxes as of September 21, 2004. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid as of September 21, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Ross & Company". The signature is written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
October 26, 2004

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

September 21, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 202,847	\$ 254,930	\$ 1,115,661	\$ 364,577
Tangible Personal Property	14,732	17,373	75,098	79,536
Intangible Personal Property				20,100
Fire Protection	1,712			
Increases Through Exonerations	31	39	171	328
Franchise Corporation	48,455	56,138	247,671	
Additional Billings	517	649	2,842	929
Unmined Coal - 2003 Taxes	29	37	161	53
Limestone, Sand, and Mineral Reserves	83	105	459	150
Penalties	2,431	3,039	13,293	4,421
Adjusted to Sheriff's Receipt	(22)	(7)	(115)	(63)
Gross Chargeable to Sheriff	<u>\$ 270,815</u>	<u>\$ 332,303</u>	<u>\$ 1,455,241</u>	<u>\$ 470,031</u>
<u>Credits</u>				
Exonerations	\$ 3,096	\$ 3,845	\$ 16,799	\$ 6,390
Discounts	2,679	3,321	14,521	5,886
Delinquents:				
Real Estate	10,685	13,362	58,478	19,110
Tangible Personal Property	432	510	2,203	1,888
Intangible Personal Property				1,552
Total Credits	<u>\$ 16,892</u>	<u>\$ 21,038</u>	<u>\$ 92,001</u>	<u>\$ 34,826</u>
Taxes Collected	\$ 253,923	\$ 311,265	\$ 1,363,240	\$ 435,205
Less: Commissions *	<u>11,079</u>	<u>13,229</u>	<u>54,530</u>	<u>18,784</u>
Taxes Due	\$ 242,844	\$ 298,036	\$ 1,308,710	\$ 416,421
Taxes Paid	242,529	297,739	1,307,299	414,865
Refunds (Current and Prior Year)	<u>288</u>	<u>331</u>	<u>1,468</u>	<u>501</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 27</u>	<u>\$ (34)</u>	<u>\$ (57)</u>	<u>\$ 1,055</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
September 21, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	990,393
4% on	\$	1,363,240

** Special Taxing Districts:

Library District	\$	(9)
Health District		(1)
Extension District		(8)
Soil Conservation District		<u>(16)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(34)</u></u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

September 21, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$366,510 of public funds uninsured and unsecured.

ROCKCASTLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 September 21, 2004
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 5, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,000,000
Uncollateralized and uninsured	<u>366,510</u>
Total	<u><u>\$ 1,466,510</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2003 through May 27, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 30, 2004 through May 27, 2004.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$681 as interest income on 2003 taxes. As of October 26, 2004, the Sheriff owes \$30 in interest to the school district and \$113 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$19,769 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Rockcastle County Sheriff collected \$1,475 of advertising costs and \$3,495 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of September 21, 2004

STATE LAWS AND REGULATIONS:

The County Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

On November 5, 2003, \$366,510 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

None

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties

This comment has not been corrected and is included in the current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rockcastle County Sheriff's Settlement - 2003 Taxes as of September 21, 2004, and have issued our report thereon dated October 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement - 2003 Taxes as of September 21, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

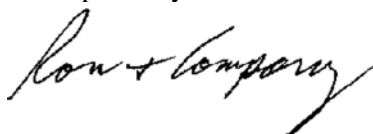
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
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(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 26, 2004

